

K THRU 12 EDUCATION

California provides instruction and support services to roughly six million students in grades kindergarten through twelve in more than 10,000 schools throughout the state. A system of 58 county offices of education, more than 1,000 local school districts, and more than 1,000 charter schools provide instruction in English, mathematics, history, science, and other core competencies to provide students with the skills they will need upon graduation for either entry into the workforce or higher education.

INVESTING IN EDUCATION

As a result of both increased General Fund revenues and local property taxes, the Budget reflects Proposition 98 Guarantee increases in 2014-15 and 2015-16, relative to the 2015 Budget Act levels—providing additional one-time resources in each of those years. These revenue increases also drive growth in the Proposition 98 Guarantee for 2016-17 to \$71.6 billion, as displayed in Figure K12-01. When combined with more than \$257 million in settle-up payments for prior years, the Budget proposes an increased investment of \$5.4 billion in K-14 education. Building off of significant funding increases provided in each of the prior three years (see Figure K12-02), the Budget proposes substantial ongoing resources that will allow schools and community colleges to expand base programs and services. Significant additional one-time resources will provide schools and community colleges with the capability to support other local investments and priorities.

K-12 PER-PUPIL SPENDING

Reflecting the recent significant increases in Proposition 98 funding, total per-pupil expenditures from all sources are projected to be \$14,184 in 2015-16 and \$14,550 in

Figure K12-01
Major Changes to Proposition 98 Guarantee Levels

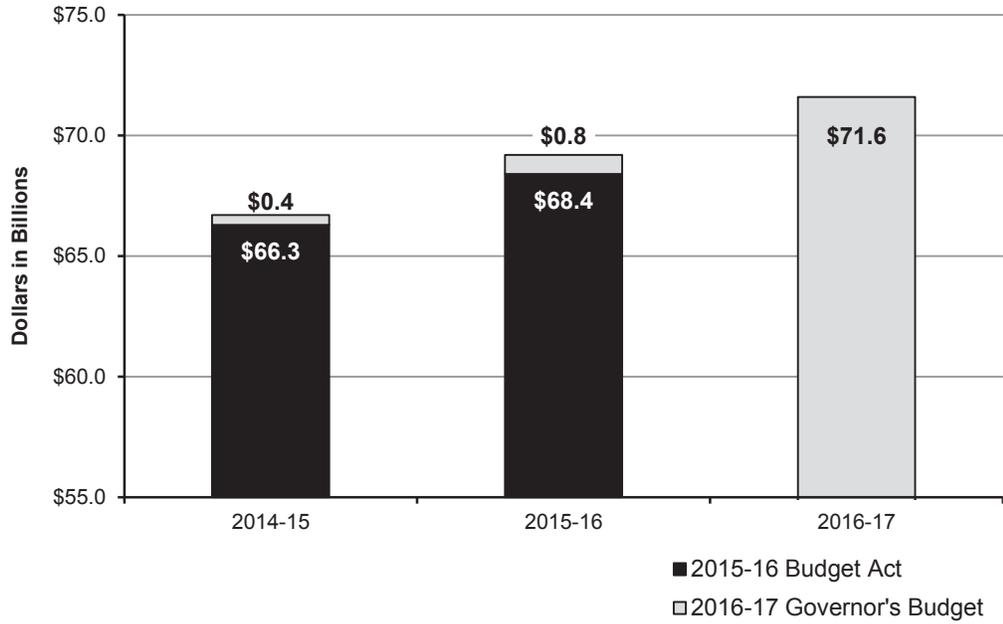
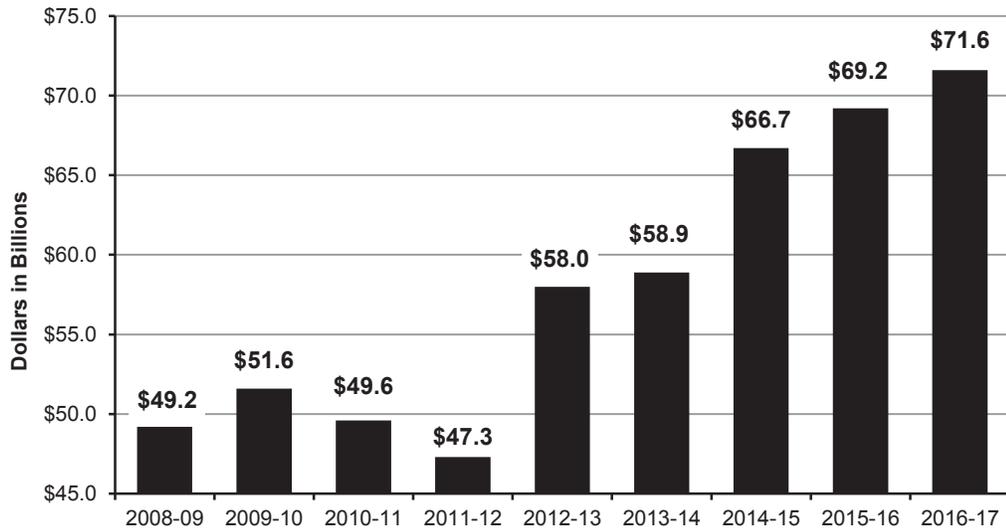
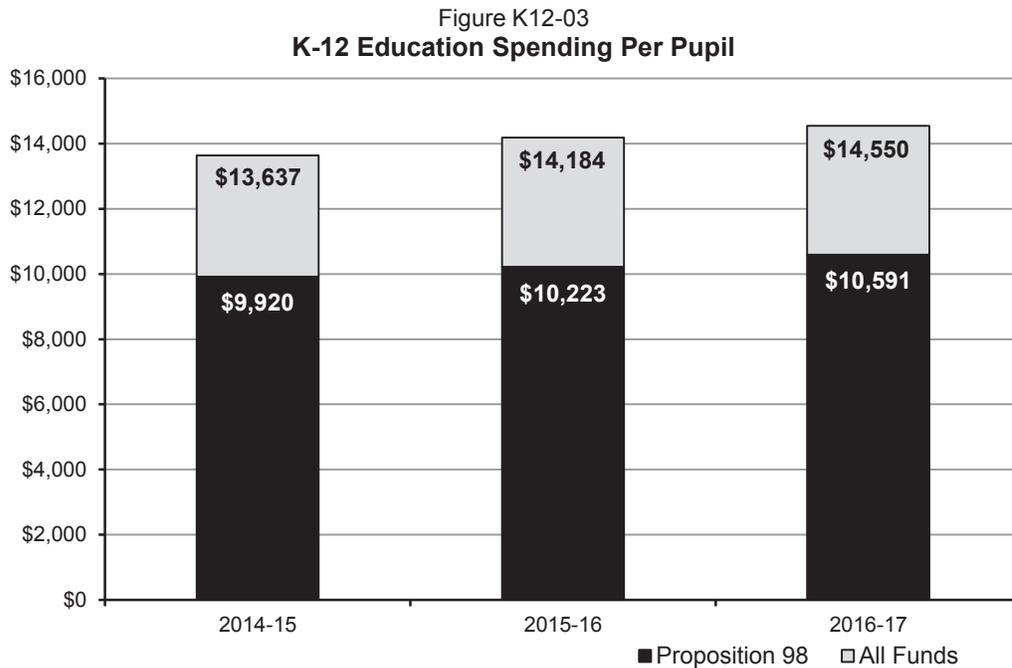


Figure K12-02
Proposition 98 Funding
2008-09 to 2016-17



2016-17, including funds provided for prior year settle-up obligations. Ongoing K-12 Proposition 98 per-pupil expenditures in the Budget are \$10,591 in 2016-17, an increase of \$368 per-pupil over the level provided in 2015-16, and up significantly from the \$7,008 per pupil provided in 2011-12. (See Figure K12-03.)



LOCAL CONTROL FUNDING FORMULA

In recognition of the fiscal challenges that many school districts face, and to address the many inequities in the pre-existing system of school finance, 2013 legislation established the Local Control Funding Formula. The Local Control Funding Formula includes the following major components:

- A base grant for each local educational agency per unit of average daily attendance (ADA), including an adjustment of 10.4 percent to the base grant to support lowering class sizes in grades K-3, and an adjustment of 2.6 percent to reflect the cost of operating career technical education programs in high schools.

- A 20-percent supplemental grant for English learners, students from low-income families, and youth in foster care to reflect increased costs associated with educating those students.
- An additional concentration grant of up to 22.5 percent of a local educational agency's base grant, based on the number of English learners, students from low-income families, and youth in foster care served by the local educational agency that comprise more than 55 percent of enrollment.
- An Economic Recovery Target to ensure that almost every local educational agency receives at least their pre-recession funding level, adjusted for inflation, at full implementation of the Local Control Funding Formula.

The Budget provides a fourth-year investment of more than \$2.8 billion in the Local Control Funding Formula, building upon almost \$12.8 billion provided over the last three years. In total, this level of funding exceeds the original 2013 projection of formula funding provided through the 2016-17 year by almost \$6 billion. The proposed funding level is enough to eliminate almost 50 percent of the remaining funding gap to full implementation, bringing total formula implementation to 95 percent.

In addition to increasing funding and fundamentally restructuring the distribution of funds to school districts, the Local Control Funding Formula substantially changed the system of district accountability. The new system shifted from a state-controlled system focused on compliance to a locally controlled system emphasizing local accountability and improved student outcomes. In the new system, each school district, county office of education, and charter school develops and adopts Local Control and Accountability Plans and Annual Updates. These plans identify local goals for all students in eight state priorities and describe planned actions, services and expenditures to achieve those goals. Rubrics now being developed by the California State Board of Education will help identify strengths and areas in need of improvement in local district plans. County offices of education, the state Department of Education and the newly established California Collaborative for Education Excellence will provide technical assistance and intervention for schools in need of additional support.

As California continues to develop elements of this new locally focused accountability system, outdated state accountability components must also be revised. The 2015 enactment of the federal Every Student Succeeds Act gives California policymakers the opportunity to establish an accountability system that provides a more accurate picture of

school performance and progress than the past system. The state system should include a concise set of performance measures, rather than a single index.

Over the course of the coming months, the Administration is prepared to engage the Legislature and education stakeholders to further refine the state's new accountability system under the new federal guidance.

EARLY EDUCATION BLOCK GRANT

Funding for California's pre-kindergarten education has historically been spread among a patchwork of programs and funding sources, including approximately \$880 million for the California State Preschool Program, \$725 million Proposition 98 General Fund for transitional kindergarten, and \$50 million Proposition 98 General Fund for the Preschool Quality Rating and Improvement System. There is also \$985 million in federal funds for the Head Start Program, which serves children ages zero to five, and \$300 million in a mix of General Fund and federal Child Care and Development Fund for the state's General Child Care and Migrant Child Care programs for children ages zero to five.

Local educational agencies face many administrative and programmatic challenges and are hindered in their ability to construct programs that align with the needs of their local communities. Each program is subject to different fiscal and programmatic requirements (e.g., State Preschool, General Child Care, and federal Head Start funding are provided via prescriptive contracts with unaligned requirements for data reporting, auditing, and enrollment). As such, these programs do not provide local educational agencies with the flexibility to develop cohesive pre-kindergarten programs that prioritize services for the state's lowest income and most at-risk children. Further, transitional kindergarten provides services for children in a narrow age window, regardless of their family's income or need for additional services.

To address these significant issues, the Budget proposes consolidating some of these resources to better target services to low-income and at-risk children and their families. Specifically, the Budget proposes a \$1.6 billion early education block grant for local educational agencies that combines Proposition 98 funding from the State Preschool Program, transitional kindergarten, and the Preschool Quality Rating and Improvement System Grant.

This proposal will result in greater local financial flexibility. Local education officials will be able to develop programs that address their community's local needs and prioritize

services for their community's lowest-income and most at-risk children. Building upon the core fiscal tenets of the Local Control Funding Formula, block grant funding will be distributed based on factors such as population and need to ensure that funds are provided equitably to schools with large populations of disadvantaged children; however, no local educational agency will receive less funding under the block grant than it received under the prior funding models.

The Administration will engage stakeholders on the development of the block grant throughout the spring budget process to develop additional program details by the May Revision. Working from the concepts of the Local Control Funding Formula, the Administration is pursuing the following objectives:

- Expanding financial flexibility that prioritizes services for each community's lowest-income and most at-risk four- and five-year-old children.
- Distributing any new funding based on factors such as local demographics and financial need, while ensuring no local educational agency receives less funding under the block grant than it received under the prior pre-kindergarten programs.
- Providing each local educational agency with the discretion to implement pre-kindergarten education programs that align funding with local priorities.
- Streamlining administrative processes.
- Integrating and aligning accountability within a local educational agency's current Local Control and Accountability Plan.

CAREER TECHNICAL EDUCATION

High-quality Career Technical Education (CTE) programs prepare students, particularly those at risk of dropping out, for success in college and careers by helping them develop the skills, technical knowledge, and real-world experience needed to compete in California's workforce. Recognizing the complexity and resource intensive nature of creating, expanding, or sustaining high-quality CTE programs, the 2015 Budget Act included resources to support the first year of the Career Technical Education Incentive Grant program, a transitional education and workforce development initiative administered by the California Department of Education. The program allocates \$900 million over three years—\$400 million in 2015-16, \$300 million in 2016-17, and \$200 million in 2017-18—in the form of competitive matching grants to school districts, county offices

of education, and charter schools. Priority for these funds is given to local educational agencies establishing new high-quality CTE programs and those facing unique challenges, such as having higher-than-average dropout rates, being located in areas of high unemployment, or operating programs within rural school districts.

The Department of Education has received nearly 400 applications for the first year of this transitional program, representing over 660 local educational agencies and nearly 2.3 million students across the state. Of the applicants, 89 represent local educational agencies with higher-than-average dropout rates, 244 are located in areas of higher-than-average unemployment, 142 are located in rural areas, and 33 are local educational agencies establishing new programs. The State Board of Education will award grants in early 2016, and allocate funding to local educational agencies shortly after.

K-12 SCHOOL FACILITIES

The Administration continues to have significant concerns with the current school facilities program. When the program was created in 1998, the state's school facilities landscape was drastically different. The state 10-year enrollment was projected to increase by 8 percent, school districts faced higher local bond voter thresholds, and the state's debt service on school facilities bonds was significantly less. By contrast, the state is now expected to have a 10-year decline in projected enrollment of around a half percent, Proposition 39 (2000) lowered the voter threshold for school bonds to 55 percent, and school bonds now cost the state General Fund over \$2 billion in annual debt service.

The existing school facilities program is overly complex, creating costs for school districts to navigate a process that can involve as many as ten different state agencies. The program creates an incentive for districts to build new schools when they already have the capacity to absorb enrollment growth, and allocates funding on a first-come, first-served basis, giving districts with dedicated facilities personnel a substantial advantage. Finally, the existing program does not give districts enough flexibility to design school facility plans to reflect local needs. The inherent problems with the current program, along with the billions of dollars in long-term liabilities created by the issuance of state debt, is no longer sustainable.

California needs a new program that corrects the deficiencies of the existing program. A proposed \$9 billion school bond for the November 2016 ballot makes no changes to the existing program and it would add an additional \$500 million a year in General Fund

debt service. The Administration will continue a dialogue with the Legislature and education stakeholders to shape a future state program focused on districts with the greatest need, while providing substantial new flexibility for districts to raise the necessary resources for their facilities needs.

K-12 BUDGET ADJUSTMENTS

Significant Adjustments:

- School District Local Control Funding Formula—Additional growth of more than \$2.8 billion in Proposition 98 General Fund for school districts and charter schools in 2016-17, an increase of 5.4 percent.
- One-Time Discretionary Funding—An increase of more than \$1.2 billion in one-time Proposition 98 General Fund for school districts, charter schools and county offices of education to use at local discretion. This allocation builds on the more than \$3.6 billion in combined one-time funding provided over the last two budgets, providing substantial resources to local schools to support critical investments such as content standards implementation, technology, professional development, induction programs for beginning teachers and deferred maintenance. All of the funds provided will offset any applicable mandate reimbursement claims for these entities.
- County Offices of Education Local Control Funding Formula—An increase of \$1.7 million Proposition 98 General Fund to support a cost-of-living adjustment and ADA changes for county offices of education.
- Charter School Growth—An increase of \$61 million Proposition 98 General Fund to support projected charter school ADA growth.
- Charter School Startup Grants—An increase of \$20 million one-time Proposition 98 General Fund to support operational startup costs for new charter schools in 2016 and 2017, which will help offset the loss of federal funding previously available for this purpose.
- Systems of Learning and Behavioral Supports—An increase of \$30 million one-time Proposition 98 General Fund resources to build upon the \$10 million investment included in the 2015 Budget Act for an increased number of local educational agencies to provide academic and behavioral supports in a coordinated and systematic way. These systems emphasize learning environments and teaching

strategies that adapt to the students being served. Research indicates that these systems: (1) improve student outcomes by more effectively recognizing the various ways that students can learn, engage with, and demonstrate mastery of academic content; (2) improve course access by promoting behavioral interventions that reduce student referrals to special education or other isolated settings; and (3) improve school climate by focusing on social and emotional learning.

- Special Education—A decrease of \$15.5 million Proposition 98 General Fund to reflect a projected decrease in Special Education ADA.
- Cost-of-Living Adjustments—An increase of \$22.9 million Proposition 98 General Fund to support a 0.47-percent cost-of-living adjustment for categorical programs that remain outside of the Local Control Funding Formula, including Special Education, Child Nutrition, Foster Youth, Preschool, American Indian Education Centers, and the American Indian Early Childhood Education Program. Cost-of-living adjustments for school districts and charters schools are provided within the increases for school district Local Control Funding Formula implementation noted above.
- Local Property Tax Adjustments—A decrease of \$149.4 million Proposition 98 General Fund for school districts and county offices of education in 2015-16 as a result of higher offsetting property tax revenues. A decrease of \$1.2 billion in Proposition 98 General Fund for school districts and county offices of education in 2016-17 as a result of increased offsetting local property tax revenues, principally from the end of the “triple flip.”
- School District Average Daily Attendance—A decrease of \$150.1 million in 2015-16 for school districts as a result of a decrease in projected ADA from the 2015 Budget Act, and a decrease of \$34.1 million in 2016-17 for school districts as a result of further projected decline in ADA for 2016-17.
- Proposition 39—Proposition 39 was approved in 2012 and increases state corporate tax revenues. For 2013-14 through 2017-18, the measure requires half of the increased revenues, up to \$550 million per year, to be used to support energy efficiency. The Budget proposes \$365.4 million to support school district and charter school energy efficiency projects in 2016-17.
- Proposition 47—Proposition 47 was approved in 2014 and reduced the penalties for certain non-serious and non-violent property and drug offenses. It also requires a portion of any resulting state savings to be invested into K-12 truancy and dropout

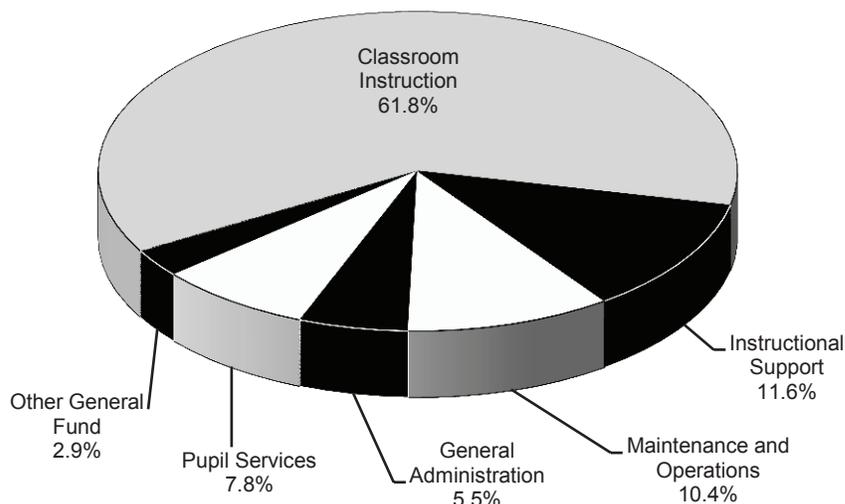
prevention, victim services, and mental health and drug treatment. The Budget proposes \$7.3 million to support investments aimed at improving outcomes for public school pupils in K-12 by reducing truancy and supporting pupils who are at risk of dropping out of school or are victims of crime, consistent with the provisions of Proposition 47. Because these funds will be expended on direct services and other instructional support for students, these funds will be counted towards meeting the state’s funding obligation under Proposition 98.

K-12 SCHOOL SPENDING AND ATTENDANCE

HOW SCHOOL DISTRICTS SPEND THEIR MONEY

Figure K12-04 displays 2013-14 expenditures reported by school districts from their general funds, the various categories of expenditure and the share of total funding for each category. Figure K12-05 displays the revenue sources for school districts.

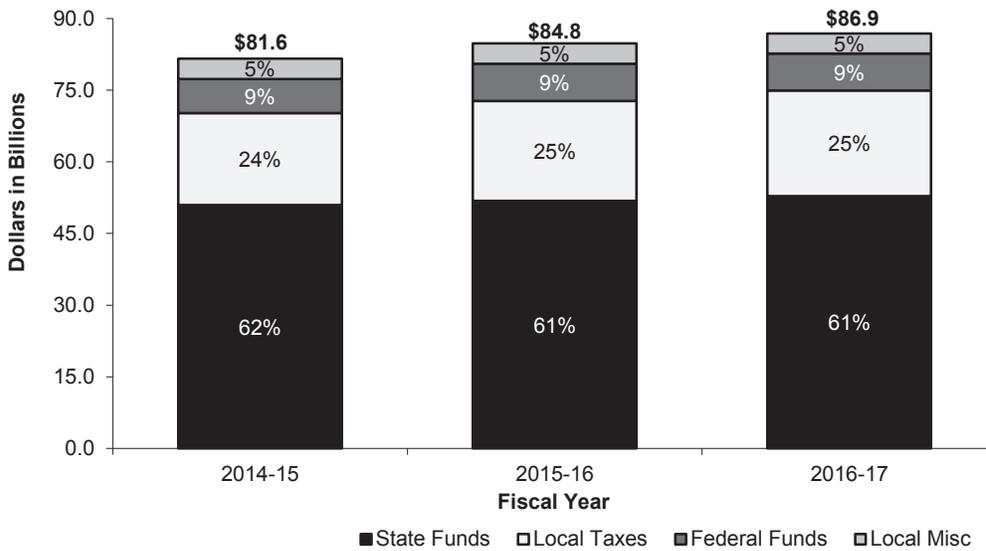
Figure K12-04
Where School Districts Spend Their Money¹



Classroom Instruction includes general education, special education, teacher compensation, and special projects. General Administration includes superintendent and board, district and other administration and centralized electronic data processing. Instructional Support includes research, curriculum development and staff development that benefits and supports student instruction. Maintenance and Operations includes utilities, janitorial and groundskeeping staff, and routine repair and maintenance. Pupil Services includes counselors, school psychologists, nurses, child welfare, and attendance staff. Other General Fund includes spending for ancillary services, contracts with other agencies, and transfers to and from other district funds.

¹ Based on 2013-14 expenditure data reported by school districts for their general purpose funding. This and other school expenditure information may be found at www.ed-data.org.

Figure K12-05
**Sources of Revenue for California's
 K-12 Schools**
 (As a Percent of Total)



ATTENDANCE

Public school attendance grew in 2011-12, declined slightly in 2012-13, and grew again in 2013-14. Attendance declined in 2014-15, and is projected to decline slightly in both 2015-16 and 2016-17. For 2015-16, K-12 ADA is estimated to be 5,976,227, a decrease of 4,486 from 2014-15. For 2016-17, the Budget estimates that K-12 ADA will drop by 4,935 from the 2015-16 level, to 5,971,292.

PROPOSITION 98 GUARANTEE

Proposition 98 guarantees minimum funding levels for K-12 schools and community colleges. The Guarantee, which went into effect in the 1988-89 fiscal year, determines funding levels according to multiple factors including the level of funding in 1986-87, General Fund revenues, per capita personal income, and school attendance growth or decline.

Proposition 98 originally mandated funding at the greater of two calculation levels or tests (Test 1 or Test 2). In 1990, Proposition 111 (SCA 1) was adopted to allow for a third funding test in low revenue years. As a result, three calculations or tests determine

funding for school districts and community colleges (K-14). The calculation or test that is used depends on how the economy and General Fund revenues grow from year to year.

For the 2014-15 through 2016-17 fiscal years, the operative Proposition 98 tests are 1, 2, and 3, respectively.

CHILD CARE

The purpose of subsidized child care is to support the gainful employment of working families. The state provides subsidized child care through a variety of programs, which families access either through a collection of providers that contract directly with the state, or through a voucher they may use to choose a provider that best meets their needs for care. These programs are primarily administered by the Department of Education through non-Proposition 98 General Fund and the annual federal Child Care and Development Fund grant. All programs are means-tested and require that families receiving subsidies demonstrate a need for child care, which means all adults in the family must be working, seeking employment, or in training that leads to employment. Most programs are capped, drawing eligible families from waiting lists, while those specifically limited to CalWORKs families or former CalWORKs families have been funded for all eligible recipients.

The major capped programs include General Child Care, Alternative Payment Program, and Migrant Child Care. CalWORKs programs include: Stage 1, administered by the Department of Social Services, for families on cash assistance whose work activities have not stabilized; Stage 2, administered by the Department of Education, for those CalWORKs families with stable work activities and for families who are transitioning off aid, for up to two years; and Stage 3, also administered by the Department of Education, reserved for families who have successfully transitioned off aid for more than two years and still have a child care need.

California provides about a third of its child care funding by direct contract to providers and about two thirds by vouchers that families can use to choose providers. Contracts are administered by the state Department of Education and vouchers are administered locally by alternative payment agencies. Vouchers are a more efficient way to provide eligible families with access to subsidized care and provide families, especially those with a need for care during non-traditional hours, more choice and access to care that better meets their needs. The Budget proposes trailer bill language that will require the Department of

Education to develop a plan to transition contracted funding into vouchers over the next five years.

California receives about \$570 million annually in federal Child Care and Development Block Grant funding, which in addition to state General Fund, provides the total funding for the General Child Care, Migrant Child Care, Alternative Payment, CalWORKs Stage 3, and child care quality programs, as well as for Local Child Care Planning Councils. Under the 2014 reauthorization of the block grant, states are expected to make changes in block grant-funded child care programs, including annualizing licensing inspections, providing health and safety inspections for non-family license-exempt providers, allowing for extended income eligibility, providing additional funding for child care quality activities, restructuring professional development for child care providers and staff, and increasing local child care program information provided to families. These changes pose challenges for California, especially as block grant funds are not anticipated to be sufficient to meet new requirements and maintain current service levels. In addition, the federal Department of Health and Human Services has not yet released final regulations implementing the reauthorization, making it difficult for states to determine their current level of compliance and decide what program and funding changes to make in response to the new law.

The 2015 Budget directed the Department of Education to convene two stakeholder workgroups to recommend actions the state may take to increase the administrative efficiency of state-subsidized child care contractors. The workgroups are required to release their recommendations by April 1, 2016. The Administration will consider these recommendations in the May Revision.

Significant Adjustments:

- Full-Year Implementation of 2015 Budget Act Investments—An increase of \$16.9 million non-Proposition 98 General Fund and \$30.9 million Proposition 98 General Fund to reflect a full-year implementation of child care and preschool investments made in the 2015 Budget Act and partially implemented in 2015-16. These include an increase of 7,030 slots for full-day State Preschool (beginning January 1, 2016), a 4.5-percent increase to the Regional Market Reimbursement Rate, and a five-percent rate increase for license-exempt providers (both beginning October 1, 2015).

K THRU 12 EDUCATION

- Stage 2—An increase of \$1.8 million non-Proposition 98 General Fund in 2016-17 to reflect an increase in the cost per case, despite a decline in the number of CalWORKs Stage 2 cases. Total cost for Stage 2 is \$422.3 million.
- Stage 3—An increase of \$33.4 million non-Proposition 98 General Fund in 2016-17 to reflect increases in both the number of CalWORKs Stage 3 cases and the cost per case. Total cost for Stage 3 is \$315.9 million.
- Child Care and Development Funds—A net increase of \$10.4 million federal funds in 2016-17 to reflect a slight projected increase to the base grant amount. Total federal funding is \$593.2 million.